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A SUGGESTION FOR A THEORY OF INDUSTRIAL DEPRESSIONS.

One characteristic of a modern industrial community is the large proportion which producers' goods hold to the total wealth. This means that a large part of the wealth is in forms which have no utility in themselves, but which derive their utility from the goods which they help to produce. A satisfactory explanation of industrial depression must, in the opinion of the present writer, be sought in the laws of value which govern investment in this class of goods rather than in the examination of the conditions of the money market, or conditions of organized credit.

Let us begin by noticing a few elementary facts. Every farmer knows that a horse which will not earn more than his feed, or a piece of land which will not produce more than it costs to cultivate it, is of no value. Likewise every business man knows that an establishment which cannot be made to more than pay running expenses is worth nothing except as old iron. This is equivalent to saying that the value of such an establishment — or, indeed, of any productive agent — is determined not by the total value of its product, but by the excess of that total value over and above the running expenses. When the running expenses are high and the output large, so that the earnings depend upon small profits and large sales, a very slight rise in the value of the product may double or more than double this excess, and, in consequence, double or more than double the value of the establishment,—provided, of course, the rise in value is believed to be permanent. Let us suppose that a certain shoe factory can be made to turn out 1,000,000 pairs of shoes in a year at a uniform cost of \$2.00 a pair. If these shoes cannot be sold for more than \$2.00 a pair, the plant is worthless; but, if they can be sold for \$2.25 a pair, the earnings of the plant will be \$25,000, which, capitalized at 5 per cent., will make it worth \$125,000. If, however, the

price of the shoes should rise to \$2.50, the earnings of the plant would double; and, if this rise in value were believed to be permanent, the value of the plant would double. Thus an increase of only one-ninth in the value of the product would double the value of the plant. In the same way a subsequent fall of one-tenth in the value of the product would reduce the value of the plant by one-half, while a fall of one-fifth in the value of the product would destroy the value of the plant altogether. This may be stated as a general law to the effect that a slight fluctuation in the value of a product tends to produce a violent fluctuation in the value of the establishment producing it. Stated in still more general terms, the value of producers' goods tends to fluctuate more violently than the value of consumers' goods.

This law is capable of still further extension when we consider that producers' goods are themselves produced by other productive agents. The different parts of the shoe factory of the above illustration were produced in other factories, and the fluctuations in the value of the shoe factory would tend to produce still more violent fluctuations in the value of the establishments producing its different parts, for the same reasons as were given above. The law might therefore be extended so as to read: the further removed the producers' goods are from some consumable product, and the more remotely their value is derived from that of some consumable product, the more violent the fluctuations in value tend to be.

This would be the tendency until that stage was reached where the producer's agents were no longer especially connected with one particular line of production, and were not therefore affected in value merely by changes in price of the one kind of consumable product.

It must be admitted that the fluctuations in the value of producers' goods are never actually so violent as the foregoing illustrations have supposed, mainly for the reason that not every rise or fall in the value of products is believed to be permanent. But, where the high or low price of a product continues for some time, it invariably leads to a belief that it is likely to continue; and this raises or depresses the price of the

productive agent out of proportion to the rise or fall in the price of the product.

In this connection it is well to observe that, while the immediate demand for consumers' goods comes from consumers themselves, the immediate demand for producers' goods comes from investors. Since their willingness to invest depends, not upon the value of the gross product of the productive agent, but upon the excess of that gross product over and above the cost of using the agent, which excess has been shown to fluctuate more violently than the total value, the instability of the investors' market is, therefore, not altogether due to psychological changes on their part, but in a large degree to the objective causes which affect the value of the things in which they invest.

A slight rise in the price of consumers' goods will so increase the value of the producers' goods which enter into their production as to lead to larger investment in producers' goods. The resulting larger market for producers' goods again stimulates the production of such goods, and withdraws productive energy from the creation of consumers' goods. This for the time tends to raise the price of consumers' goods still higher, and this again to stimulate still further the creation of producers' goods. There is no check to this tendency until the new stocks of producers' goods begin to pour upon the market an increased flow of consumers' goods. This tends to produce a fall in their value, which in turn produces a still greater fall in the value of producers' goods, and so the process goes. There seems, therefore, to be a fundamental reason for the periodicity of industrial depression, which can only be removed by such a complete knowledge and understanding of the situation as would enable the business world to foresee the tendencies and take measures to overcome them.

These observations regarding the law of value as applied to different classes of goods may throw some light on the relative stability in the price of a consumable article, such as sugar, in comparison with the price of such an article as steel, which belongs to the class of producers' goods several steps removed from consumers' goods. The market for sugar is mainly a consumer's market, while the market for steel is mainly an in-

vestor's market. A consumer's market depends upon the willingness of the public to consume, while an investor's market depends upon their willingness to invest. As was shown above, there are reasons, other than psychological, why an investor's market must be more unstable than a consumer's market.

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